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# Minutes

## Board of Natural Resources Meeting

January 8, 2008  
Natural Resources Building, Olympia, Washington

### BOARD MEMBERS PRESENT

The Honorable Doug Sutherland, Commissioner of Public Lands

Bruce Bare, Dean, University of Washington, College of Forest Resources

Daniel J. Bernardo, Dean, Washington State University, College of Agricultural, Human, and Natural Resource Sciences

The Honorable Jon C. Kaino, Commissioner, Pacific County

Bob Nichols, for the Honorable Christine Gregoire, Washington State Governor

### BOARD MEMBERS ABSENT

The Honorable Terry Bergeson, Superintendent of Public Instruction

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### CALL TO ORDER

Chair Sutherland called the meeting to order at 9:06 a.m. on, January 8, 2008 in Room 172 of the Natural Resources Building.

### APPROVAL OF MINUTES

MOTION: Bruce Bare moved to approve the December 4, 2007 Board of Natural Resources Meeting Minutes.

SECOND: Dan Bernardo seconded.

ACTION: Motion passed unanimously.

### PUBLIC COMMENTS FOR AGENDA ACTION ITEMS

Bill Robinson of the Nature Conservancy approached the Board in support of the South Stevens Land Exchange. He applauded DNR staff for their efforts. The 4 sections of DNR land involved in the exchange are adjacent to 30,000 acres of preserve that are prime habitat for the pygmy rabbit. The Nature Conservancy is working with Washington Department of Fish and Wildlife (WDFW) to reintroduce the pygmy rabbit to that area. The Department's interest in blocking up the property to make it easier to manage also helps them by making it easier to introduce the pygmy rabbits without dealing with dispersed property owners.

### TIMBER SALES (Action Item)

[Proposed Timber Sales for February 2008 \(Handout 1\)](#)

Jon Tweedale greeted the Board. He provided an overview of his presentation which includes a projection of sales for the next few months, meeting the sustainable harvest projection, also December 2007 results and the February 2008 proposed sales. We have regrouped from last years fires and are trying to bring sales forward as soon as possible. This month the Board will see 84 mmbf, next month 92 mmbf, April 70 mmbf then tapering off. They were able to bring March sales in to February and increase the production; the flow is much better in the second half and tapers off in May & June. Mr. Tweedale will be talking with the regions on each sale and is confident that they will be offering at least 665 mmbf, hopefully the market can absorb that kind of volume. They will be offering 680 mmbf and hope to meet the sales volume of 665 mmbf. These numbers do not include blow down.

#### December 2007 Sales Results:

One of the 12 sales originally offered was pulled due to a Forest Practice issue dealing with unstable slopes. 11 sales offered & 8 sold; 47.1 mmbf offered & 36.7 mmbf sold; \$13.4 million minimum bid & \$11.9 million sold; \$285/mbf offered & \$323/mbf sold; average number of bidders = 3.1

#### Proposed February 2008 Board Sales:

19 sales at 78.8 mmbf; \$14.8 million minimum bid; average \$191/mbf. Mr. Tweedale explained that the reason for the low price is that all the no bids from the past have been brought back in and have reappraised the North Cider sale, which is located in Pacific County; it's a small diameter hemlock sale which is the worst part of the market right now. Major changes have been made in the way the sale is being offered.

Mr. Tweedale also brought to the Board's attention that The Belfair FIT Sorts sale in the proposed February package includes a forest improvement treatment sale, and that one of the sales in this month's package and one from last month are located on lands that could be included in the re-conveyance in the Lake Whatcom Watershed. He noted that Whatcom County is in approval of these sales. Seven of the sales offered in the package today have completed the forest practice appeal period; the forest practices have been approved, just not the 30 day appeal period. If issues arise the sales won't be completed.

Chair Sutherland asked when that appeal period would be completed.

Mr. Tweedale replied that the appeal period will be completed before the auction date. He continued on to discuss two sales that received SEPA comments, one on the Susie Mix sale and the other on the Palo Alto Substitute. The Olympic Forest Coalition withdrew their comment on the Susie Mix sale when they realized it was not in the OESF, this is the second time this has happened. Also, the Natural Heritage Program made a comment on a bog that they wanted to make sure was protected; the sale is not tributary to the bog in terms of its hydrologic contribution. DNR's road crosses a power line right of way into the Palo Alto Substitute sale; we received a request for a gate to be put up because a citizen is concerned about illegal garbage dumping in the area, but he did not object to the timber sale.

Mr. Kaino asked Jon to explain why they put up 10 mmbf at \$38 per thousand.

Mr. Tweedale explained that it meets the market price and the minimum financial thresholds.

Mr. Kaino commented that the minimums are very low, and he does not understand the reason for selling it at such a low price.

Mr. Tweedale stated that we will be having 100 mmbf of blow down coming up at less than the \$38 per thousand; this hemlock sale has previous and fresh blow down on it as well. The market price was actually \$100 and was offered on a lump sum basis with a 2 year contract at prices that were three months old. Because of the blow down and other costs that raised the logging costs, he raised the logging costs in the appraisal, and lowered the hemlock price because the shortest haul would be to Tillamook Oregon, or Randle Washington. Mr. Tweedale felt it was still a prudent sale to bring forward even after the adjustments were made.

Mr. Bare asked about the trade offs that exist between ramping up harvest volumes to reach the established goal of 655 mmbf in FY08 when the timber market is falling. He wanted to know how DNR determines when to reduce the sales volume in such situations and also what is happening to net revenue projections in this type of environment.

Mr. Tweedale replied that he can't speak to net revenue projections or fund balances.

Mr. Bare stated that this is what beneficiaries want to know, they don't especially care if we have an even flow of timber harvest unless it provides cash to the trusts.

Mr. Tweedale stated that he thought it does and that this is part of the sustainable harvest and part of the volumes that we projected. However, it happens to be the lowest end on the lowest market and the worst product mix that we've seen. We could probably drop 100 – 200 mmbf out of our cut this year but that would be a significant hit to the beneficiaries and would not be practical from a long term management standpoint.

Mr. Kaino stated that if we are selling at \$38, \$50, or \$90, and we could hold that for 2 years and sell it for \$240 the question becomes how we balance that. He stated that when he first received his packet that number was 91 or 92 which he was already concerned about.

Mr. Tweedale replied that this is the market and he had made significant changes to the numbers according to the market. If the sale did not have blow down in it, we would have left it at a threshold that we have established as the minimum viable threshold. When the nearest mill is 80 – 100 miles away you won't reach much above \$150.

Mr. Kaino asked if it was possible to stay away from certain sectors of the market.

Mr. Tweedale stated that they do and that they do their best to schedule to the best markets. Small hemlock puts them in a difficult position. They do kick away sales that fall beneath the minimum threshold but there were unique circumstances here with the blow down. The regions are calling asking how to push forward a sale that is below the threshold; we can't unless we are

creating habitat, then we can bring that sale forward because we have that obligation under the sustainable harvest to have those thinnings and manage for habitat as well. Without the special circumstances we put them off. There are at least half dozen sales this year that we have done this with. Mr. Tweedale stated that it costs us about \$10 or \$15 a thousand to lay out a timber sale. If we can beat 4 x \$15 (\$60) we will most likely lay out a sale. We try to keep a minimum at a reasonable price; if this were green and didn't have the blow down it would not be offered.

Mr. Bare asked how the red alder market is holding up.

Mr. Tweedale replied that the red alder has taken a huge drop. Alder prices have hit all time highs and other substitute woods are coming in to the marketplace and being substituted.

Mr. Bare brought up the Gingerbread sale and if Mr. Tweedale knew what it was appraised at back in November.

Mr. Tweedale replied that it had been appraised at about \$1200 on the log side. He estimates that we are using a log price around \$900 now which is a significant drop.

Mr. Bare stated that it is still one of our higher value sales.

Mr. Tweedale replied that we try to incorporate quite a bit of alder in our mix; we try to have a balance for all our market places. Sierra Pacific is starting to cut hemlock now, which he thinks is a good location for all the blow down and he hopes they cut more hemlock. Weyerhaeuser also has about half a billion board feet of hemlock on the ground. We are committed to achieving the sustainable harvest and we are obligated to salvage the wood; how we are going to achieve both is still in discussion and we are figuring this out. The marketing part of it is going to be a challenge.

Mr. Bare stated that is going to be a challenge to sell our projected sales volume because so much of our sales volume production eventually ends up as dimension of lumber which has declined in value the most.

Mr. Tweedale agreed

Mr. Bare stated that he was not optimistic given his reading of the DNR's most recent economic forecast.

Mr. Tweedale said that the random lengths and composite lumber index hit the bottom about three months ago and has been creeping up a bit. He has talked with people in the industry who agree that hemlock is making it tough right now, but there is a potential lack of Douglas fir in the spring time which is still a strong market; we have purposely scheduled for the spring.

Mr. Bare noted that we still have several thinning sales that we expect to bring forward because of the schedule set forth in the sustainable harvest.

Mr. Tweedale stated that we are trying to bring the Douglas fir thinning sales forward and still maintain a reasonable margin. We are creating habitat and operating under a significant amount of acres to create habitat, we are operating in NERF and dispersal, owl habitat which is increasing the cost. We did plan for that as those numbers were put into the sustainable harvest calculation. We may see a bit lower price on average as we move in to more thinnings and create more habitat.

MOTION: Bob Nichols moved to approve the January 2008 timber sales.

SECOND: Bruce Bare seconded.

ACTION: Motion passed unanimously.

## LAND TRANSACTIONS

### Schuerman 40 Acquisition #08-0077571 (Handout 2)

Pamela Planchich came forward to present the Schuerman 40 transaction. The property is located in Stevens County, 10 miles east of Colville. This is the first transaction being brought to the Board for approval using the authority of House Bill 1092. The property meets the criteria for at risk conversion and has a high probability of the land changing from forest land status. House Bill 1092 provides the spending authority for the resource management cost account and the real property replacement account to purchase lands that are at risk of conversion at the appraised fair market value. The bill also outlines the legislative intent to lease the development rights. It is a 40 acre in-holding within an 8,000 acre Normal School Block, it has 79 mmbf of merchantable timber, with 90 year old timber scattered throughout the 40 acres, and approximately 20 to 25 acres has 25 to 30 year old timber; the remaining 10 to 15 acres has 10 year reprod. It contains merchantable and regeneration timber and is zoned forest land. In Stevens County that translates to one dwelling within twenty acres; the property also has direct accessibility via Seigel Hill Road. The forest land investment value is \$400 per acre or \$16,000. The timber value is \$24,000 for a total value of \$40,000. Fair market value is \$2,350 per acre or \$94,000, and the timber value is \$ 24,000 for a total of \$118,000. The development rights value is \$78,000. The Department attempted to purchase the property in 2005 at forest land investment value but the owners were not interested. The new purchasing authority allows us to offer the owners fair market value which was established by an appraisal.

Mr. Nichols asked what the added opportunity is that was added by the house bill, and what the distinction is.

Ms. Planchich explained that back in 2005 when we attempted to purchase this property the only authority we had to do that was at forest land investment values which were \$400 – 500 per acre, and we wanted it to close up the in holding but the land owner was not interested in our offers.

Mr. Nichols asked if the appraisal is between forest use, versus a development price.

Ms. Plancich agreed, fair market value, highest and best use.

Mr. Nichols added that the house bill added more money to make the purchase.

Chair Sutherland explained that they also added the authority to be able to utilize the money.

MOTION: Jon Kaino moved to approve resolution 1249.

SECOND: Bob Nichols seconded.

ACTION: Motion passed unanimously.

Bonnie Bunning emphasized that the reason we are able to pay fair market value, which is greater than forest land investment value, is the intention that the legislature expressed in acquiring the development rights and compensating the trust for that. The mechanism is unknown at this point but we are hoping to secure a couple modest size transactions in order to clarify that process.

Mr. Bare asked if there is any requirement in the law that if we utilize these funds to buy this land we have to lease the development rights.

Ms. Bunning explained that the budget proviso is very vague and that it expresses an intention that if the money were not forthcoming the trust is holding those development rights which is a value that can be exploited. The intent is to keep the working forests working and keep them from becoming converted.

#### South Stevens Land Exchange Phase #1 #86-077468 (Handout 3)

Steve Saunders and Lisa Faubion presented Phase #1 of the South Stevens Land Exchange to the Board. The exchange is facilitated by Clearwater LLC. Agreements have not been made with all the exchange partners at this time. Phase #1 includes agreements reached with six of the twelve to fourteen landowners; Mr. Saunders stated that they hope to have the rest finished within the next few months.

Mr. Saunders reviewed the objectives and timeline of the exchange. He provided a summary of the public hearings and an overview of the components of the sale.

The objectives of the exchange are:

- Diversify the portfolio for trust beneficiaries
- Improve financial returns to the trusts
- Provide for immediate reinvestment of trust assets
- Consolidate ownership of trust lands
- Convey parcels with sensitive habitat to acceptable stewards
- Maintain trust land acreage base

The time line of the exchange was:

- Identify exchange parcels – Fall 2006
- Open house meetings for the public – October 2006
- Independent, third-party appraisal – November 2007
- Public hearings – October & December 2007
- Final parcel selection, negotiations – December 2007 & January 2008
- Board of Natural Resources review – January 2008

The hearing summary consists of:

- Increase revenue for schools
- Supply logs to lumber mills in NE Washington
- Allow fire district and school districts to reach goals and better serve community
- Concerns about access to lands for recreation and wildlife habitat
- Interest regarding cultural resources
- Questions about the exchange process

An overview of the exchange components shows:

- Clearwater to DNR: 2,880+/- acres
- DNR to Clearwater: 3,876+ acres

The exchange involves four trusts:

1. Common School
2. Agricultural School
3. Capitol Building
4. Charitable, Education, Penal and Reformatory Institutions

Private exchange lands are in three counties:

1. Okanogan
2. Stevens
3. Whitman

State lands are in seven counties:

1. Chelan
2. Douglas
3. Ferry
4. Grant
5. Kittitas
6. Pend Oreille
7. Stevens

Mr. Bare asked if the expectation of phases two and three would be to regain the 1000 acres that will be lost in this exchange.

Mr. Saunders replied that they look at the land balance overall; for example in the Central Cascades exchange we traded 20,000 acres and acquired 80,000 acres for a gain of 60,000 acres. We will lose some in this exchange but it is not a significant loss. We are trading out of

unproductive shrub steppe habitat and re-conveying those lands into productive forest and farm land, which normally equates to a decrease in acreage.

Mr. Bernardo asked if they had a distribution of the 2880 acres across land types.

Ms. Faubion replied that it is approximately 1,000 acres of dry land agricultural properties, and the remainder is forest lands.

Mr. Saunders turned the presentation over to Ms. Faubion.

Ms. Faubion reviewed several maps with the Board highlighting the locations of the parcels included in Phase #1. The maps also noted candidate parcels that may be included in future phases. The two private parcels in Okanogan County would provide Northeast Region access to properties that they don't currently have access to, and will provide access to timber that we are unable to harvest at this time. In Ferry and Stevens counties we would exchange two scattered parcels and gain three edge holdings. In southeast Stevens County we would exchange several scattered parcels for an in holding parcel within one of our blocks, as well as exchanging scattered parcels and acquiring more edge holdings in northern Stevens County. A 40 acre parcel in the Suncrest area, and a 120 acre parcel in Kittitas County are zoned rural residential. There are four sections in Douglas and Grant counties that the Nature Conservancy would like to acquire through this exchange. There is also a small parcel of state trust lands in Chelan County along the Columbia River that's highest and best use value is rural residential. There are two dry land farms in Whitman County totaling 1000 acres. The acquisition of these properties enables immediate reinvestment of the income producing properties.

Ms. Faubion reviewed the market value of the exchange properties. The overall exchange is balanced within .2%, the Department would convey \$4,611,700 of real property, and receive \$4,622,170 of real property for a net increase in market value of \$10, 470. There is a net decrease of 996 acres. The decrease is a result of higher dollar value per acre and higher revenue potential for the properties the state will be acquiring. Of the 3,800 acres of state trust lands that DNR would like to dispose of in this exchange, 2,600 acres are shrub steppe property.

Dan Bernardo asked if we are currently leasing that for grazing rights.

Ms. Faubion replied that two of the four sections have current grazing leases on them.

Dan Bernardo asked Mr. Robinson from the Nature Conservancy how they would improve over our habitat management if the property is not being grazed.

Mr. Robinson explained that their interest is in blocking up large sections of land which allows them better use of the habitat.

Mr. Kaino asked how the exchange principal gets paid.

Chair Sutherland explained that we put together a series of parcels; it is up to the facilitator how to dispose of them. We exchange on market value, value for value, whether they make money or not is not up to us.

Jon Kaino asked if we have a specific contract or pay a commission.

Chair Sutherland replied that we do not.

Ms. Faubion explained that the private land owners do not have contracts with the exchange facilitator either; they don't represent DNR or the landowners.

Bob Nichols asked about properties located on map 13.

Ms. Faubion explained that they are dry lands wheat farms that are currently leased; DNR will acquire them with leases in place.

Mr. Nichols asked if these two parcels may create potential blocking up.

Ms. Faubion replied that the goal wasn't for blocking up these particular properties but rather to meet the goal of asset diversification. In this case disposing of the shrub steppe properties and some of the forest land is enabling the Department to acquire some agricultural properties and help diversify the trust assets.

Mr. Nichols stated that he thought they may be directing the purchase or acquisition of lands that are in connection with other lands with the idea of blocking up; in this case he does not see that principle being applied.

Mr. Saunders explained that agricultural land doesn't have to be directly adjacent and can be managed in this type of proximity to parcels; our agricultural folks will be able to manage it as a single farm unit. If we were proposing something like this for forest land it wouldn't make sense.

Chair Sutherland asked if some time in the future we may be able to come back and pick up that section to make that a full farm.

Mr. Saunders replied that it is possible; however it's a different owner and would be a completely separate transaction.

Ms. Faubion stated that they are still negotiating on several larger farms for future exchanges; a 5,000 acre farm in Asotin County as well as two irrigated farms in Franklin County.

Mr. Bernardo stated that these are hard parcels to come by and they are nice acquisitions.

Ms. Faubion went on to explain that the overall exchange is balanced and the individual trusts are balanced; as far as market value is concerned the furthest apart any of the trusts are is 4%. Some of the trusts will experience an increase in acreage and others a decrease, depending on

the types of properties they currently own and what types they are moved into post-exchange. The common school acreage consists of shrub steppe property and forest lands; post-exchange they would move into forest lands in Stevens and Okanogan counties, one of the agricultural properties in Whitman County. The agricultural school currently has two rural residential properties, the property in Kittitas County and the 40 acre parcel in southern Stevens County; post-exchange the agricultural school trust would acquire the 300 acre farm in southern Whitman County and some forest land in Stevens County. The charitable school will notice a decrease in acreage because it is a 649 acre property in shrub steppe which will move in to productive forest land in Stevens County. The Capitol Trust is a scattered parcel that would be moved into a forest land parcel in Stevens County that helps us block up.

Chair Sutherland commended Ms. Faubion and DNR staff on the amazing job they have done on this exchange.

MOTION: Bob Nichols moved to approve resolution 1250.

SECOND: Bruce Bare seconded.

ACTION: Motion passed unanimously

## **CHAIR REPORTS**

### Storm Damage Report (Handout 4)

Eric Schroff, Pacific Cascade Region Manager and Jed Herman, Product Sales & Leasing Division Manager addressed the Board to provide an update on the December storm damage.

Mr. Schroff provided an overview of the weather conditions that created the storm damage. Accumulations of snow, arctic air and a low pressure system out in the Pacific set the stage for a major regional storm event. He provided information on the excessive amounts of precipitation and wind that were involved in the event. He noted how the system split into an area of high winds and an area of heavy precipitation. The region experienced water damage west of 1-5 and east of a 20 mile corridor along the coast, including extensive damage to road systems creating access problems to the region. To date, there have been 90 sites identified on state trust lands that will require repair, including two bridges, numerous culverts, cross drains, slumps in the road system, and debris slides. The current cost estimates are \$1 to \$1.2 million dollars on state trust lands. They are working to recover access to the state lands; district staff is working with region and division engineering personnel identifying projects, crossing design, site plans and developing cost estimates. We have submitted a significant number of projects to FEMA for consideration of cost recovery. We have hired contractors to deliver activities on the ground, and DNR Engineering Division has taken lead on five of the large projects including the two bridge replacements. The focus is on repairing damage and restoring access for timber harvesting, timber assessment by purchasers of timber, presales and forest management activities, and access to recreational opportunities on state lands.

Mr. Schroff provided slides showing the damage in the Kennedy Creek area involving the Ranch House BBQ. A debris slide flowed down a mile and half before hitting Highway 8.

Chair Sutherland noted that where the slide initiated is in mature timber and that there was no apparent link to a road downhill from where the slide started. We've seen where slides like this happen in older timber all the way down to where harvesting has happened in the last year.

Mr. Schroff pointed out that the initiation point is in standing timber. Debris remained on the C-4700 Road and bounced down the embankment; the road remained intact. He showed slides revealing that the event came from two separate initiation points, both in standing timber. DNR geologists are completing a report that should be ready in the next couple weeks. Additional slides of the B-700 Road showed the large amounts of debris that damaged a recreation trail, an old railroad grade and took out the B-line Bridge near the Rock Candy entrance. The bridge is a 55 foot Glu lam and steel structure was moved about a quarter of a mile downstream.

Mr. Schroff showed a slide of a portion of the C-4500 road that slid. In the Waddell Creek a tremendous amount of debris from Petosi Creek and Camp 4 Creek took out the C-8000 Bridge. This will be a bridge replacement project. The culvert on Camp 4 Creek where it crosses the C-8000 remained functional.

Mr. Kaino asked what our intent is in some of these areas. Are we going to let them come back naturally or repair the land failures.

Mr. Schroff explained that we plan to complete rehabilitation where we can. The next portion of the presentation addressed the wind damage and the blow down recovery plan. Two blocks of state land that were affected the most were the Radar Ridge and Browning Blocks. Numerous small forest and industrial landowners were affected by the blow down. The Department is still assessing the damage to state lands. The initial assessment was 2800 acres, or 100 mmbf of timber. The Browning Block consists of roughly 1900 acres and 60 mmbf of timber, Radar Ridge 760 acres and 40 mmbf of timber, and the lower Chehalis block consists of about 100 acres and 4 mmbf of timber; other smaller patches of blow down are scattered across the landscape. Our target for this year's sustainable harvest calculation is about 280 mmbf in total. The blow down adds another 100 mmbf which is a little more than a third of our harvest. We are currently configured with four state lands districts that are fully staffed to deal with our timber sales program; given the size and dispersed nature of this event we decided to set up a fifth district with a district manager in charge of the blow down program complete with staff and access to the types of specialists they needed to get the work done. Our experience from the 2006 storm has helped address the question of how we deal with the issue of blow down in riparian zones and how we deal with blow down when there are threatened and endangered species involved, for example, how to deal with blow down in marbled murrelet or owl areas if we have any.

Mr. Schroff has directed the recovery team to:

- Complete an assessment by February 15<sup>th</sup>
- Clearly identify the location and amount of timber damaged

- Identify access, habitat, marketing issues, and other issues as they surface
- To quantify the resources needed to complete the sale preparation.

Mr. Schroff explained to the Board that we will have to reach outside the region boundary to ask for help. There is not enough staff to get this done in addition to our normal timber sale program. The Commissioner and other region managers are supportive. The region will begin making those resource orders by the 15<sup>th</sup> of January using the fire model. Mr. Schroff has directed pre sales work to begin by January 21st; the first area sale may be a region sale and will be ready by May. He'd like the presale work on all blown down areas completed by July 31, 2008.

The presentation moved to slides of occupied and reclassified marbled murrelet habitat showing intersections of blow down and those special habitat zones.

Mr. Kaino asked if we can take some of the trees out of the marbled murrelet habitat to try to rehabilitate those areas.

Mr. Schroff replied that they will make site specific decisions and will move across the landscape, including considering harvest in areas of severely damaged habitat. He continued his presentation on the Browning Block north & south showing slides of several areas of timber blow down, water damage, facility damage and debris throughout the region.

Mr. Kaino expressed his concern about jobs and tax revenue for his county. He asked what we can do to get the timber sold as soon as possible and asked if there is anything the Board can do to ensure that we get the wood out quickly making sure we get the highest value for it.

Mr. Schroff explained that they are working with all available tools, resources and staff to complete the assessments to bring back to the Board. They may be presenting the division with large groups of sales or a blow down package that may require a special meeting or approval from the Board of Appraisers. They are still in the assessment phase but will report to the Board regularly on the progress.

Chair Sutherland stated that our epidemiologist is currently determining how much time we have to get to the wood. It will depend on weather, clumping of trees vs. scattered trees, people, and equipment while recognizing that we need to continue on with regular business. The region has the authority to bring additional staff, resources and equipment to the region.

Mr. Kaino asked for a monthly update on the progress.

Chair Sutherland agreed that monthly updates are a good idea. One question is how we will market the blow down sales; it may be significantly different due to the quality of the wood. He stated that there are a lot of questions that need to be answered; we are working with others to determine what we can do to increase interagency cooperation.

Mr. Kaino asked if the Board could meet on the third Tuesday of each month for the purpose of approving blow down sales, to get the sales approved and out the door quickly.

Jed Herman approached the Board and suggested that we wait until the assessments are done and we can see what the results of the analysis are so we have an idea of how to organize the process. The Department's obligations are to meet the sustainable harvest cut, in addition to dealing with the blow down as well.

Mr. Bare asked if there is a rough estimate of what is salvageable.

Mr. Schroff replied that the 100 mmbf was an estimate; they won't know until further assessments are completed. They feel it is better to remove the wood and recover the value in order to get those areas reforested and re-growing as quickly as possible.

Mr. Bare asked if this salvage volume would be added to the 655 mmbf to bring the estimated timber sales level up to 755 mmbf in FY09.

Mr. Herman stated that this is the case and we are in process of determining if we have the budget and operational resources to do it.

Mr. Bare asked if we assume that we add 100 mmbf to the sustainable harvest volume of 655 mmbf and this total sales volume puts us over the allowed range (i.e.,  $\pm 25\%$ ), will we have to re-examine the sustainable harvest plan?

Mr. Herman replied that he did not feel that was the case. We have been below the median level and that the projected 100 mmbf will not put us over.

Mr. Bare asked if this adverse series of events causing the change in projected harvest sales, coupled with the adverse market conditions could cause us to re-examine the sustainable harvest plan as it might trigger a recalculation as called for in the Policy for Sustainable Forests.

Bruce Mackey approached the Board and stated that he felt we were still within the limits.

Mr. Herman stated that he has not seen any information that would cause him to think that there was anything in the Policy for Sustainable Forests that is challenged by this.

Mr. Kaino asked if it was prudent to re-evaluate the management fee.

Chair Sutherland replied that he has asked Bob Van Schoorl to begin that review and will have that information available next month. He asked the Board if they would like to go out in the field to view the damage.

Mr. Nichols replied that the focus needs to be on the timber harvest and would like to make sure the visit doesn't interrupt that process.

Chair Sutherland stated that Capitol Forest is close and that maybe we could take an hour or two to visit Capitol Forest after the Board meeting next month to view a couple of areas.

#### Aquatic Habitat Conservation Plan (HCP) Handout (5)

Rich Doenges, Aquatics Division Manager addressed the Board to provide the Aquatic HCP presentation. Mr. Doenges reviewed the benefits in managing aquatic lands:

- Foster water dependent uses
- Encourage public access
- Ensure environmental protection
- Utilize renewable resources

Mr. Doenges noted that when revenue is generated from aquatic lands then it is considered a public benefit. There is no fiduciary trust that aquatics manages for, the Department acts as a proprietary manager of state owned aquatic lands, but in a stewardship role.

He explained that the Aquatic HCP is a negotiated agreement; the Department will be working with NOAA, Fisheries, and the US Fish & Wildlife Service. DNR staff looked at all activities on state owned aquatic lands and reached a conclusion that we may be causing incidental take of listed and sensitive species. The HCP will go into how to avoid or minimize, and how to compensate for those impacts. At the end of the negotiations we will have a framework for managing all the aquatic lands on an ecosystem basis, and an incidental take permit.

Mr. Kaino asked if we re-evaluate on an annual basis

Mr. Doenges stated that he was not sure that it would be re-evaluated on an annual basis but by looking at our activities. Most of our activities are granted through leases and we can look at those and assume that there will be an impact.

Mr. Kaino asked if this was from an introspective or if we have people calling with complaints.

Mr. Doenges replied stating that we have had both. No lawsuits have been filed; we are trying to be pro-active. He went on to list the required elements of the HCP:

- Develop an HCP for a 50 year duration
- HCP will provide assurances to the federal government that our actions will contribute to the recovery of those listed and sensitive species
- Provide a basis for us to look at the 2.6 million acres of aquatic lands and manage them on an ecosystem basis

Mr. Nichols asked how the HCP addresses species of concerns that are not listed but may have problems down the road.

Mr. Doenges replied that the species they are proposing to cover are species that are not currently listed by the federal government; they have extended that based on where the species occur, and where there are activities that overlap with their critical life stages and we have authority to help improve their lives.

Mr. Nichols asked if it was comprehensive so that all species that are impacted can be included in the management.

Mr. Doenges agreed. He continued to review the HCP planning areas which equal 2.6 million acres consisting of marine bed lands and tidelands, bed lands in freshwater navigable, freshwater lakes and rivers, and shore lands. Privately owned tidelands, lands covered in a port management agreement, nor tribal lands will be included in the HCP.

Mr. Nicholas asked if this is a subset of the Puget Sound Partnership (PSP).

Mr. Doenges replied that DNR manages a plurality of tidelands in Puget Sound, almost ¾ of the tidelands are in private ownership, but 25-30% remains in state ownership; all the bed lands are under state management.

Mr. Nichols asked if this is in cooperation with the PSP.

Mr. Doenges stated that they have already provided this presentation to the leadership council of the PSP.

Chair Sutherland noted that the Department has played a very active role in the PSP.

Mr. Doenges explained how aquatic staff uses science, legal, and regulatory authority to help them understand the effects of activities on all the species that swim, fly or crawl on aquatic lands. We are not a regulator but we provide permission to use state aquatic lands, but if there is an activity that has been reviewed by other state and federal agencies we have little involvement in what kinds of permit conditions will be involved. The legal authority guides us as we choose the activities and actions to include in the HCP. There are eleven specific activities broken down into three groups:

- Aquaculture (shellfish & fin fish)
- Log booming and storage
- Over water structures (anything from a mooring buoy to a shipyard dock)

Mr. Bare asked if shellfish included geoduck.

Mr. Doenges replied that it does, but this HCP effort includes aquaculture, so the cultivation of geoduck. There is a separate process with federal agencies for wild stock fishery. We have been able to document that there are very little affects from the management and operation of that fishery, which has allowed us to receive designation of a low affect HCP allowing a much more rapid process for going through the analysis on the part of the federal services. We are expecting their biological opinion at the end of the spring this year.

He explained that the impacts on aquatic lands of outfalls is limited to their footprints which is minor, and their other impact is on water quality which is already being regulated by the Clean Water Act and under the Department of Ecology. There are 22 covered species broken down into four assemblages:

- Reptiles and Herptofauna
- Birds
- Fish
- Marine mammal - Orca

Mr. Nichols asked how the Biodiversity Council has affected their work.

Mr. Doenges referred to his staff. He introduced Carol Cloen, lead scientist.

Ms. Cloen approached the Board. She stated that the species data that they have gathered comes from biodiversity data and gap analysis. It is the same data set for species distribution observed and predicted that the rest of the state and the rest of the region are using. The criteria used in selecting the species were based on how much of their life history is integral to aquatic/submerged lands.

Mr. Bare asked which one of the four groups he felt was going to be the most contentious.

Mr. Doenges replied that it will depend on the activity and the distribution of the species and where the greatest interest of the public lies.

Chair Sutherland stated that it doesn't cover shellfish and asked Mr. Doenges to address this.

Mr. Doenges explained that they had looked at covering the pinto abalone but when they started looking at DNR authorized activities, they recognized that the decline is attributed to poaching and over fishing which are activities that we don't impact so we wouldn't gain anything by including it in the list. The key point is that we are focusing on the species that are dependant on aquatic lands for their critical habitat and are vulnerable to the activities that we authorize. He moved on to a description of the proprietary database model that looks at the species and habitat type occurrence, and activity distribution. If they get an intersection of a potentially affected area, that is the focus of their attention in the HCP. The impacts in that area typically boil down to shading, water quality and benthic and sediment alterations. They look at direct and indirect activities and how they affect wildlife directly or some of their behaviors. In 2006 a science advisory panel was assembled to assess our model and they came up with some suggestions that we are in the process of finalizing and adapting the model.

Mr. Doenges reviewed the Over water Structures Project which will quantify structures on state owned lands; there are nearly 23,000 of these over water structures. The majority of them are in the Puget Sound region, the majority of the docks are in fresh water lakes.

Chair Sutherland stated that this does not include any port facility.

Mr. Doenges continued reviewing conservation measures and how leases can be modified to reduce the identified impacts to the potentially affected habitat. Once the conservation measures are put in a lease they become a contractual requirement, aiding in administration and a way to insure implementation.

Mr. Kaino asked if those requirements generally reduce the value of those leases.

Mr. Doenges stated that it may change the way the lessee is managing the facility which may result in greater cost, but shouldn't reduce the value of the lease.

Mr. Bernardo asked if that will be included in the lease.

Mr. Doenges explained that the lease is based on the land value and that measures that will result in a large financial impact will be phased in, such as replacing creosote pilings with steel or concrete pilings.

Chair Sutherland explained that lease rates are established by statute and that amount is 30% of the adjacent upland value. There is no flexibility unless there is some reason why the upland value is distorted for example; a building on the upland one year and then the building is torn down the next year. It is not a question of what is the asset value and the cash benefit value. It can be awkward when one parcel is a parking lot but the one next to it is an office building.

Mr. Doenges explained that as land values go up we are expecting more rent disputes. He directed attention back to the slide showing examples of some conservation measures such as grading to allow sun to go through the structure, raising the elevation of over water structures minimizing it's footprint, and barging or moving logs which is being contemplated in the Tacoma area. We will encourage lessees to adopt these measures to reduce the impact.

Mr. Bernardo asked if we would be able to preclude particular economic activities from happening.

Mr. Doenges explained that they will be looking at areas that will be used as compensation in areas for unavoidable impacts. They know there is enough commercial activity and isn't practical to remove and others where if they provide enough value of conservation to species they may look at reserving or withdrawing from leasing partially or entirely.

Chair Sutherland reminded the Board of the Harbor Line discussion of the Oak Harbor adjustment, which would be typical of the types of activities they may bring forward.

Mr. Doenges led the Board into the programmatic conservation measures. There may be areas that are lease withdrawals; an established system of aquatic reserves that may achieve the effect of providing assurances to the federal services that we have critical habitat protected and we have prohibitions against certain types of activities. Another future activity will be habitat creation and restoration. Aquatics does not currently have authority to purchase aquatic lands but that may be changing in this session. If that comes to play we will be working with other partners to acquire aquatic lands specifically for the purpose of aquatic restoration and habitat. In terms of the programmatic conservation measures involved another statewide effort of data systems looking at the areas that we have identified that are used by the covered species and prioritizing the different ecosystems and habitat types within those. The first step has been

completed and we are in the process of finalizing the analysis of where submerged aquatic vegetation is and where adjacent land use would favor conservation measures or reserves. We will look at different factors that play into distribution to determine areas that need limited use authorizations.

Mr. Doenges pointed out the forage fish as an important food source for 15 of the 22 covered species so their spawning habitat and holding areas are critical. This will be one area that will receive substantial attention. When the data is focused on a specific beach it is generalized.

Mr. Nichols asked if this is a weak spot that needs to be focused on.

Mr. Doenges explained that some of the data on forage fish is fairly generalized; they need to make sure that one occurrence is indicative of the habitat limitations on that beach.

Mr. Nicholas asked if the forage fish are projected to be in the HCP.

Mr. Doenges replied that they are not, but their distribution will inform where we go with the programmatic conservation measures. DNR aquatics are already involved in marine vegetation with the Eel Grass Management Project. By the end of this year they hope to have their draft HCP and EIS finalized. They continue stakeholder outreach efforts as they will be bringing them other things for consideration when determining use authorization.

Mr. Kaino asked if this HCP is going to include all state owned aquatic lands.

Mr. Doenges stated that it does.

Mr. Nicholas asked what the Board's role is on adoption and approval.

Mr. Doenges referred to Christa Thompson

Ms. Thompson approached the Board to explain that it would represent a policy decision; in managing land the Board would play a role in approving it but there is no specific provision that the Board shall approve HCP's.

Mr. Nichols stated that to the intent that this is a very specific policy direction of the Department of a state resource that it would indicate the approval of a resolution

Chair Sutherland stated that this is his interpretation.

Mr. Doenges finalized his presentation by explaining that by the end of the year they plan to finalize the draft HCP and the EIS, the joint NEPA and SEPA document that will be up for public review and comment, they also plan to finalize negotiations with federal agencies to determine what requirements will be for the incidental take permits defining what our requirements will be for all the monitoring and adaptive management facets of the HCP. They hope to begin implementation in 2009. One important facet to gain approval is to ensure we have adequate

resources to carryout the HCP; they will work on that this spring as they draft their budget proposals for the next biennium. They have spoken with the PSP and they are interested in our data as it helps them revise and plan their shoreline master plan. The implementation needs will focus on management and data acquisition. They will come back to the Board as they move through the process.

## **PUBLIC COMMENTS FOR GENERAL ITEMS OF INTEREST**

None

Chair Sutherland addressed the letters received regarding the Lake Whatcom re-conveyance. He assured the Board that Craig and Bruce have been working with the County to make sure all statutory requirements are being met. He is concerned about the county's possible lack of public involvement as voiced in the letters we have received.

Mr. Kaino pointed out that he would question the comments of a few who may state that there has been no public opportunity. His experience as a county commissioner has been that they could hold a dozen public hearings and then have someone come back and ask why they didn't hold any public hearings.

Chair Sutherland stated that he is not aware of any public hearings around the issue. No agreement has been reached and when that time comes we will begin the process of looking at the lands that are inter-disbursed in the watershed to separate the county board lands and the federally granted trust lands to develop the intergrant exchange before the re-conveyance can take place.

Mr. Nichols asked if we would have a public comment period before we sign off.

Chair Sutherland replied that we will hold public hearings.

Mr. Kaino asked if we go out in to the public to hold them.

Chair Sutherland stated that we have in the past but referred to Craig Partridge.

Mr. Partridge addressed the Board to explain that given the size of the intergrant exchange and the re-conveyance our intention to hold public hearings in Whatcom County on both procedures will be spelled out in the signed Memorandum of Agreement (MOA).

Mr. Kaino asked when this will take place.

Mr. Partridge estimated within the next eighteen months

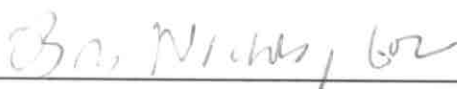
Chair Sutherland explained that he will be briefing the Board from time to time throughout the process.

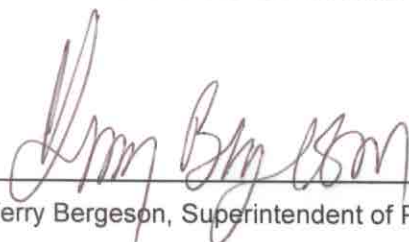
Chair Sutherland will have Bonita work with Eric to coordinate the February board tour of the storm damage.

Meeting adjourned at 11:46 a.m.

Approved this 5<sup>TH</sup> day of FEBRUARY, 2008

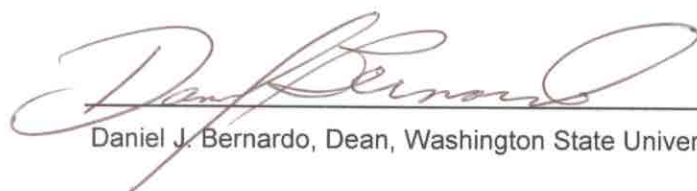
  
Doug Sutherland, Commissioner of Public Lands

  
Bob Nichols for Governor Christine Gregoire

  
Terry Bergeson, Superintendent of Public Instruction

  
Jon C. Kaino, Commissioner, Pacific County

  
Bruce Bare, Dean, University of Washington

  
Daniel J. Bernardo, Dean, Washington State University

Attest:

  
Bonita Hill, Board Coordinator